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OPERATIONS OF THE VA HOME LOAN GUARANTY PROGRAM

COMPLETED

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND MEMORIAL AFFAIRS

OF THE

COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

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OPERATIONS OF THE VA HOME LOAN GUARANTY PROGRAM

WEDNESDAY, MAY 7, 1986

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to call, at 9:30 a.m., in room 334, Cannon House Office Building, Hon. Richard C. Shelby (chairman of the subcommittee) presiding.

Present: Representatives Shelby, Smith, Sundquist, Bilirakis, and Rowland of Connecticut.

Also Present: Representatives J. Roy Rowland, Montgomery, Hillis, McEwen, and Solomon.

OPENING STATEMENT OF CHAIRMAN SHELBY

Mr. SHELBY. The subcommittee will be in order, and we will proceed with regular business.

I scheduled this oversight hearing upon receiving information that the Veterans' Administration home loan guaranty program, as well as other benefit programs, are being devastated by the effects of Gramm-Rudman.

My plan is to proceed with this oversight hearing and then have a markup session on two bills.

We are delighted to have the chairman of the full committee, Mr. Montgomery, with us here this morning. The distinguished gentleman has been very concerned about Gramm-Rudman's effect on regional offices. He recently sent a survey to all VA facilities regarding its impact.

I have placed before each member a compilation of the letters which were sent to the committee by the VA regional offices in response to that survey. For those of you who are not familiar with the results of this survey, I would suggest that you take a quick look at this document for comparison purposes. I think they clearly denote two recurrent problem areas.

One, the home loan guaranty program needs help and needs help badly. Declining interest rates have doubled home loan activity. Staffing levels, on the other hand, have declined to alarming proportions due to budget cuts, and there appears to be a serious deterioration of quality and timeliness on delivery of service in this program.

Two, the adjudication of all claims—compensation, pension and education are also suffering.

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Let me illustrate with a few items. Los Angeles cites that ". . . the loss of 102 employees, approximately 17 percent of our work force . . . will cause a rapid deterioration in the quality and timeliness of our service to veterans."

Detroit says that "On April 9 we closed the doors to the Loan Guaranty Division. All visitors . . . are now going to the Veterans Services Division reception area to have their questions answered. . . ."

Montgomery, AL reports "We are losing ground daily in our ability to maintain timeliness."

Pittsburgh states that "Without funds to pay fee appraisers, the property management activity would grind to a halt."

The Washington office declares that "These reductions . . . could not have come at a worse time. Our loan guaranty workload is four to five times what it was a year ago."

I could go on all morning and give examples of these horror stories.

In essence, what our regional offices are saying is that the lower interest rates and continued economic recovery, combined with the hiring freeze in the Veterans' Administration and the loss of key personnel under the early retirement program, is wreaking havoc on the home loan guaranty and other benefit programs administered by the Department of Veterans' Benefits.

The purpose of this hearing today is to determine what course of action the Administrator plans to take to process on a timely basis the claims and applications now pending in the Loan Guaranty and Adjudication Divisions.

We will be hearing today from the Washington officials in charge of these programs, as well as from a panel of regional office Directors who seem to be bearing the brunt of this problem.

In addition, we will be hearing from Congressman Ken Kramer on the effects of Gramm-Rudman on the Denver Regional Office.

Before we begin, I would like first to recognize the ranking minority member of the subcommittee, the Honorable Chris Smith, and then recognize Chairman Montgomery and then other members.

OPENING STATEMENT OF HON. CHRISTOPHER SMITH

Mr. SMITH of New Jersey. First of all, I want to commend you for holding this hearing this morning. I am very concerned about the funding problems in many VA regional offices and about continuing problems with the operation of the Home Loan Guaranty Program.

The application of recent budget restraints to VA regional offices has had a negative effect on their ability to respond to veterans' needs in a timely manner. We hear reports of low morale among VA field personnel and long delays in the loan processing area.

It also appears that cuts in personnel could not have come at a more difficult time, as you just pointed out. Workloads are increasing as much as four or five times due to the rush by veteran home buyers and home owners to take advantage of low mortgage interest rates.

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As another consequence of the high program activity, I understand that the VA will soon hit the loan guaranty ceiling which was expected to last through at least fiscal year 1987.

Mr. Chairman, I have many questions for the VA this morning, and I am certain my colleagues do as well. So, to leave plenty of time, I will conclude and say only that the VA must continue to render an acceptable level of service to veterans.

I look forward to your comments and questions.

Mr. SHELBY. The chairman recognizes the gentleman from Tennessee.

OPENING STATEMENT OF HON. DON SUNDQUIST

Mr. SUNDQUIST. Thank you, Mr. Chairman.

First of all, I want to commend you for the urgency with which you called this hearing. I appreciate your immediate willingness and commitment to addressing this problem. When I requested that we have a hearing such as this, it came as a result of problems in my State and from all over the country.

It came to my attention that the regional offices of the Veterans' Administration are currently experiencing a terrible overload in work due to the large number of veterans wanting to refinance their homes or purchase new ones. Because of the favorable market conditions brought on by low interest rates, the technicians and clerical employees of these offices are finding themselves in a serious dilemma. Combine this with the hiring freeze implemented at the VA as an indirect result of the Gramm-Rudman-Hollings Deficit Reduction Act, and it becomes imperative that the members of this committee initiate corrective action.

An example of the extreme workload is evidenced by the current situation in the Tennessee Regional Office. Their backlog is such that they do not answer their phones from 8 a.m. to 2 p.m. every work day in order that they may attempt to get caught up on their paperwork. One can readily see their problem when you look at statistical information comparing the second quarter of fiscal year 1985 with that of 1986. There has been an 89 percent increase in appraisals, a 55 percent increase in inspections, a 54 percent increase in eligibility determinations, a 55 percent increase in loan commitments, a 59 percent increase in guarantees issues and a 36 percent decrease in property managements/purchase orders processed.

Today I am hopeful we can come to some agreement as to how to resolve this matter soon. If we do not, we run the risk of denying an eligible veteran the opportunity to purchase or refinance a home.

Mr. Chairman, I have an addendum here I would like to make a part of the record.

Mr. SHELBY. Without objection, it will be made a part of the record.

Mr. SUNDQUIST. Thank you.

[The information appears on p. 33.]

Mr. SHELBY. The Chair recognizes the gentleman from Connecticut, Mr. Rowland.

Mr. ROWLAND of Connecticut. Thank you. I would like to echo the remarks by my colleagues. We appreciate your calling the hearing. I am sure we look forward to the witnesses here today to straighten out some of the problems we see coming down the line.

Thank you, and I look forward to some excellent testimony.

Mr. SHELBY. The Chair recognizes the gentleman from Georgia.

Dr. ROWLAND of Georgia. Thank you for having this hearing. I think it is important to associate myself with your remarks. I look forward to hearing the testimony.

Mr. SMITH of New Jersey. The ranking member of the full committee has a statement he would like to put in the record.

Mr. SHELBY. It will be made part of the record, without objection, at this time.

[The information appears on p. 34.]

STATEMENT OF R.J. VOGEL, CHIEF BENEFITS DIRECTOR, VETERANS' ADMINISTRATION, CENTRAL OFFICE, ACCOMPANIED BY ROBERT O'TOOLE, LOAN GUARANTY DIRECTOR; ROBERT W. GARDNER, BUDGET STAFF DIRECTOR; AND DON IVERS

Mr. SHELBY. We will now call upon Mr. R.J. Vogel. Mr. Vogel is Chief Benefits Director of the Veterans' Administration Central Office. He will be accompanied by Mr. Robert O'Toole, Loan Guarantee Director, Mr. Robert Gardner, Budget Staff Director, and Mr. Don Ivers.

Mr. Vogel, you may proceed. We appreciate your being here this morning.

Mr. VOGEL. Thank you, Mr. Chairman.

Mr. Chairman, I have no formal statement to make. I would just like to make a few remarks. What we are seeing in our loan guaranty operations throughout the country is an unprecedented demand for loans and an unprecedented volume of work. We will very likely conclude this fiscal year, provided that the dollar ceiling amount is in fact raised, as one of the largest in terms of the number of loans made, and clearly the largest dollar amount in guarantees in the life of the 40-year old program.

What I am saying is it is a strong economy and low interest rates that are putting our backs to the wall and challenging us to provide the very best service we can given the resources that we have. Even without the effects of the Deficit Reduction Act, we would be very, very hard pressed to handle the workload in the same manner we have handled it in past years.

We are pleased to be here, Mr. Chairman, and will be able to answer any questions you or other members of the committee may have.

Thank you, sir.

Mr. SHELBY. I have a number of questions if you will bear with me, and I will try to ask them in sequence.

First, would you please advise us of the status of the VA Home Loan Guaranty Program? In other words, where was it a year ago, where is it now, and where is it going?

Mr. VOGEL. We anticipate guaranteeing some 400,000 loans through this fiscal year. Last year we guaranteed 179,000, so we are way over what we did last year. All areas are up. Originations,

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refinancing, the volume of refinancing is way up given the lower interest rates. So, clearly, we are way ahead of where we have been, sir.

Mr. SHELBY. How many loan guaranty people were lost due to the early out offered by the Office of Personnel Management?

Mr. VOGEL. We lost approximately 73, 74 positions in early out. As a percentage of the total number of loan guaranty employees working in the regional offices and in the VA central office, that equated to about 3.7 percent of the loan guaranty work force.

Mr. SHELBY. About how many stations are below end of the year FTEE?

Mr. VOGEL. I would have to provide that for the record, Mr. Chairman.

Mr. SHELBY. Can you provide that information to me?

Mr. VOGEL. Yes, sir, we will.

[Subsequently, the Veterans' Administration submitted the following information for the record.]

Approximately two-thirds of the 49 regional officers with Loan Guaranty activities are below their employment level at the end of fiscal year 1985.

Mr. SHELBY. What will happen if the hiring freeze is not lifted?

Mr. VOGEL. If the hiring freeze is not lifted, we will pretty likely come close to meeting the amount of dollars available to run the department. We are in a situation now of having high turnover. In some stations where the attrition rate runs high, we are into a situation of pretty poor labor economics. In some areas professional personnel are, by force of the work, doing clerical work in order to get the work out.

Mr. SHELBY. Mr. Vogel, is it true 11 loan guaranty officers have retired out of 49 and that this means you lost about 25 percent of your top senior loan guaranty people? If that is so, what happens now?

Mr. VOGEL. Yes, Mr. Chairman, we lost 11 loan guaranty officers.

Mr. SHELBY. Isn't that unusual?

Mr. VOGEL. It certainly is, sir.

Mr. SHELBY. How do you replace this kind of quality?

Mr. VOGEL. I believe we have the talent within the loan guaranty operation in the field and in the central office to fill those positions. We have a great number of assistant loan guaranty officers in Loan Guaranty Divisions acting as division chiefs. We have not taken steps as of this time to fill all those positions, and in so doing we are in fact generating some amount of dollars from the salary that would otherwise have been payable. That was the idea of providing an early out, to gain dollar resources.

Mr. SHELBY. Mr. Vogel, will the administration lift the hiring freeze? Do you have any feeling on that as far as VA is concerned?

Mr. VOGEL. Mr. Chairman, the hiring freeze was imposed by the Administrator on January 15, 1986. I took it upon myself to put a hiring freeze in the Department of Veterans' Benefits 1 month earlier than that, knowing what the numbers look like. I have had discussions with the Administrator, who is acutely aware of the problems we are facing given the high volume, especially in the loan guaranty area, and anticipate meeting with him tomorrow after this hearing to discuss at least the selective restriction of the freeze

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to meet the more critical demands in selected stations with certain kinds of personnel.

Mr. SHELBY. It is my understanding that in February of this year, 1986, certificates of reasonable value were backlogged approximately at the national rate of 5,000. Recent reports indicate a backlog today of approximately 30,000, just a few months, and it is estimated this figure will continue to increase.

What does this mean in terms of added waiting time for veterans, and what can be done to alleviate this situation?

Mr. VOGEL. The pending time for certificates of reasonable value is markedly up. Those appraisals are assigned to appraisers that are members of our fee panels. We don't have any particular difficulty getting those assigned. We have significant difficulty getting them returned. In the past, our guidance is we expect to get a return on an appraisal within 5 days, and in a lot of areas of the country to get them in 5, 6, or 7 weeks is doing very well.

Once they are returned to us, we have to turn them into certificates of reasonable value. We discontinued doing what we call "John Doe appraisals", that is if it is not an identified veteran buyer, we are not assigning an appraiser in those cases, and that has, in fact, given us some relief.

Mr. SHELBY. Mr. Vogel, what percentage of loan applications are for refinancing purposes at this time? Do you have some judgment on that?

Mr. VOGEL. Mr. Chairman, it is about 45 percent right now.

Mr. SHELBY. Did you say 45?

Mr. VOGEL. Yes, sir.

Mr. SHELBY. 45 percent.

It is my understanding the VA regulations don't require a new CRV when a loan is to be refinanced at the old amount. However, since Ginnie Mae buys 80 percent of all VA loans, and they require a new appraisal, many man hours and dollars are wasted to accomplish this. Have you, Mr. Vogel, or anyone in your office contacted Ginnie Mae regarding a change in this procedure? After all, Ginnie Mae is relying on the VA guaranty and it seems rather silly to spend additional money at a time when you are facing severe fiscal cuts and backlogs.

Mr. VOGEL. Mr. Chairman, I would like Mr. O'Toole to respond to that.

Mr. O'TOOLE. Mr. Chairman, we have been in contact with the officials of Ginnie Mae in the last few months or so, and as a result of our request to them, they issued a program change the end of last week that on VA refinancing loans, they no longer will require the VA issue a new certificate of reasonable value. Ginnie Mae is still going to require that an appraisal be made, but it can be a conventional appraisal or Fannie Mae or Freddie Mac appraisal. We think that is going to help our workload situation substantially.

Mr. SUNDQUIST. Would you ask him to repeat that?

Mr. SHELBY. The gentleman from Tennessee wants you to repeat that statement for the record and for himself.

Mr. O'TOOLE. Before this recent change was made by Ginnie Mae, when a new VA loan was made to refinance an existing VA loan, and that new loan was going into a new Ginnie Mae pool, the

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Ginnie Mae requirement was that VA issue a new certificate of reasonable value. Their concern was that the new loan not be more than what the property was worth.

We have had a number of meetings with Ginnie Mae in the last month or so, and just recently they announced a change in their procedure, so it is not necessary for VA to issue a new certificate of reasonable value on VA refinancing loans. There still has to be an appraisal made, but it doesn't have to be a VA appraisal, it can be a private appraisal performed under the Fannie Mae, Freddie Mac guidelines.

Mr. SUNDQUIST. Will you yield?

Mr. SHELBY. I yield to the gentleman from Tennessee.

Mr. SUNDQUIST. Why does there have to be an appraisal made if it is nothing more than a contract modification?

Mr. O'TOOLE. Well, Mr. Sundquist, Ginnie Mae, from our discussions, and I don't want to speak for them necessarily, feels they have to protect their securities to be sure that the property is worth at least what the loan amount is.

Mr. SUNDQUIST. I can understand that. If the gentleman will continue to yield.

Mr. SHELBY. I will continue to yield.

Mr. SUNDQUIST. I can understand that if it is for a sizable increase, but for something already under contract, when all you are doing is modifying it by the change in the interest rate, do you see any logic in requiring another appraisal?

Mr. O'TOOLE. All I can say is when we do an interest rate reduction refinance for no increase in the loan amount, except for the payment of the discounts, we do not require a new appraisal.

Mr. SUNDQUIST. What would it take to get Ginnie Mae to change, and have you talked to them about that?

Mr. O'TOOLE. Well, sir, we have talked with them. We thought we accomplished a good deal by having them change from requiring a new VA certificate of reasonable value to their current procedure. We think it is going to cut down on our regional office workload substantially.

Mr. SUNDQUIST. I think it will, but why not do it completely?

Mr. O'TOOLE. Once again, Mr. Sundquist, I can't speak for Ginnie Mae.

Mr. SUNDQUIST. Particularly for loans that are less than 3 or 4 years old.

Mr. O'TOOLE. That was the argument we made when we talked to the Ginnie Mae officials. I think we got a good deal accomplished by allowing the procedure—

Mr. SHELBY. If the gentleman from Tennessee will allow me to reclaim my time now, he has made a good point. I think Mr. O'Toole is basically saying he is trying to resolve the problem with Ginnie Mae on the second appraisal, are you not?

Mr. O'TOOLE. Yes, that is correct.

Mr. SHELBY. I agree with the gentleman from Tennessee. It seems to be a waste of time and a waste of money to get a second appraisal, because Ginnie Mae is a lot better off afterwards. The veteran is better off because his payments are lower, and there is a lot more security in it. We are just trying to make the program

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work efficiently and that is what the gentleman from Tennessee was alluding to expressly.

Mr. SMITH of New Jersey. If I heard correctly, Mr. O'Toole was saying that is the argument the VA advanced.

Mr. O'TOOLE. That is right.

Mr. SMITH of New Jersey. I think we are all in agreement.

Mr. SHELBY. We all know, Mr. Vogel, at VA, you are experiencing problems due to the tremendous volume of loan originations. You have already mentioned that. We also hear about it in our States. What about your property management situation? How has that been affected recently? How long does it take the VA to turn around and foreclose property today versus a year ago? How fast is your inventory increasing? We have had hearings on the amount of properties you have, and that is a real problem with the revolving fund.

Mr. VOGEL. Our inventory, Mr. Chairman, is about the same now as it was a year ago. We have experienced some delays in selected stations in being able to get——

Mr. SHELBY. Why is it the same? It looks to me like you would be picking up sales in a lot of areas because of the lower interest rate. Is that true, or are you getting hit in other areas?

Mr. VOGEL. One offsets the others. We are getting hurt in other areas, areas of the country heavily dependent on the domestic oil industry. We continue to experience a high rate of default foreclosures and acquisitions.

Mr. SHELBY. Is your worst economic situation, as far as VA is concerned, in Texas, Oklahoma, Colorado, areas that way?

Mr. VOGEL. Yes, it is, Mr. Chairman.

Mr. SHELBY. Has it become more acute recently?

Mr. VOGEL. I think it probably has become more acute with the price of domestic oil being so low. Last week I was in Oklahoma in our Muskogee Regional Office, and in Tulsa. It wasn't very long ago I had the opportunity to visit Houston, and the situation there is very, very trying. The large oil companies have cut back on employment, veteran home owners are being laid off, and at the same time in other areas of the country, the volume of business, the new business coming in the door, is high as well.

Mr. SHELBY. What about loan defaults? Are you able to work with veterans to try to save them from foreclosure? I know we have had hearings on that before. What kind of cooperation are you getting from the banking community in this regard?

Mr. VOGEL. Mr. Chairman, we get excellent cooperation from the mortgage bankers. We find that if we are able to effectively do loan servicing later on, we cure a high percentage of defaults.

Mr. SHELBY. Is there anything we, in the Congress, can do that would be helpful to you legislatively? Can this be resolved administratively?

Mr. VOGEL. Mr. Shelby, we believe that we can under administrative rulemaking and procedures, effectively continue to deal with the lenders in this area.

Mr. SHELBY. According to Chairman Montgomery's survey around the country, most regional offices have lost substantially more than 4.3 percent in personnel. Would you care to comment on that?

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Mr. VOGEL. Yes, Mr. Chairman. A number of stations have, in fact, had large numbers of personnel losses. They typically have high normal attrition rates. The larger regional offices in large urban environments, given the general economic condition, have had a number of employees leave the VA service. This is especially true in Los Angeles and some other very large regional offices and largely clerical personnel, file clerks, and those personnel that staff our transcription units in our administrative divisions have left.

Mr. SHELBY. How close are we to reaching the loan credit ceiling?

Mr. VOGEL. We estimate that we will reach that ceiling in mid-June if not before. Sometime between the 10th and 15th of June we will have reached the $17.4 billion ceiling.

Mr. SHELBY. I notice the Senate passed legislation last night to increase the loan credit ceiling to $30.9 billion based upon a letter they received from General Turnage. Can you tell me why the House was never officially notified that you were getting close to the ceiling? We don't recall any notification from your office on that.

Mr. VOGEL. Mr. Chairman, I have discussed that matter with the Administrator, and the failure to notify this committee was an oversight for which we are sorry. I assure you it won't happen again.

Mr. SHELBY. At this time I want to recognize the chairman of the full committee, the Honorable Sonny Montgomery, from Mississippi. Mr. Chairman, we are glad to have you with us today on the subcommittee.

Mr. MONTGOMERY. Thank you, Mr. Chairman. I will be very brief. I would like to thank you for having this hearing today.

Certainly it is important, and I think it is important to the Veterans' Administration, that this is brought out and that we see where we are headed, especially on these home loans. I would like to thank Chris Smith and also Don Sundquist. Mr. Sundquist came to me several weeks ago, he was having problems in Tennessee, and said "You have a powder keg here, we had better look into it," and then I talked to you, Mr. Chairman, and you called this meeting.

I would like to ask unanimous consent to insert my statement in the record.

Mr. SHELBY. Without objection, it is so ordered.

(See p. 36.)

Mr. MONTGOMERY. I called the general counsel several days ago and told him we were hearing about a backlog on processing of these loans because of low interest rates, and he agreed with me something had to be done. I think you are going to have to make a crash program, I think you are going to have to lift that hiring freeze, especially in the loan guaranty area, you are going to have to shift people around. We are going to get burned bad, and you are going to get burned if these interest rates go back up and these loans have not been processed.

It is just not fair to the veteran. The veterans we have applying now for home loans, we never see these veterans any other time. This is the only time they come in and ask for any benefits. In my opinion there are not enough veterans hospitals. They are not asking for compensation or pensions. This is one thing they ask the

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Government help them get, a good GI home loan. I think you are going to have to really shift some people around.

You know how to do it, you have been in the military. Let's process these loans. In the Farmers' Home Administration down in my State, we go through this every year. They don't have enough people to process the loans. They get the farmers upset, everybody gets concerned, they lose confidence in the Farmers' Home Administration. Right now, you have a pretty good track record, but you had better get going on this, or you are going to get caught. You wait and see, the veterans' organizations are going to unload on you.

I am just saying this is a good hearing, and when you get back downtown, you certainly should go to work on it.

Mr. VOGEL. Yes, sir. Thank you, Mr. Chairman.

Mr. SHELBY. The Chair recognizes the gentleman from New Jersey, Mr. Smith.

Mr. SMITH of New Jersey. Thank you, Mr. Chairman.

I want to associate myself with the remarks of the distinguished chairman of the full committee. I think we are dealing with a potential powder keg here, and I am hearing from veterans in my own State that are upset about delays. I think, if the interest rates were to go back up, the very fine point the chairman has made is that we are going to hear more than just a little dissatisfaction. And we are going to see, I think, that a part of that anger will be taken out on Members of Congress as well as the VA having to bear its brunt.

Mr. Vogel, I wonder if you can tell us how the VA arrived at the figure of $30.9 billion and why did the VA so under-estimate the $18.2 billion figure in legislation we passed just a few months ago? What were the assumptions upon which the earlier figure was based, and what are the assumptions it is based on today?

Mr. VOGEL. I can provide for the record a detailed analysis of how we arrived at $30.9 billion.

[Subsequently, the Veterans' Administration submitted the following information for the record.]

At the time the $30.9 billion figure was derived, 1986 fiscal year activity to date had resulted in the obligation of $13.2 billion. Weekly activity at the time was running approximately $750 million, which would have placed us near the limit in early June. We estimate that $13.5 billion ($750 million a week times 18 weeks remaining in fiscal year 1986) would be needed in addition to the $17.4 billion already authorized, resulting in a total of $30.9 billion for fiscal year 1986.

Mr. VOGEL. The long and short of it is that it is our best estimate given at that time, just as was the $18.2 billion our best estimate a few months ago. The unprecedented volume is dismaying. Our ability to forecast is a reflection of the difficulty experienced by the mortgage bankers, by the Homebuilders Association and others. The economy is vigorous, and interest rates are at an all-time low. Even the Chairman of the Federal Reserve Board believed that interest rates had bottomed out.

Now we are a full point lower. Financial economists on Wall Street predicted a few months ago that interest rates had bottomed out. Today I heard one of the same individuals predict the Federal Reserve would reduce the discount rates. We are doing the best we can when we come in with those estimates. We are experiencing

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volume unprecedented since the early 1950's when the program was very alive and very vigorous.

Mr. SMITH of New Jersey. How long should it take for the VA to process a veteran's home application, and can you tell us how long it is taking today?

Mr. VOGEL. We attempt to process a home loan application in 8 days. Only 16 of our regional offices are currently meeting that standard. Ten are in real serious time lapse problems, running from 18 to 30 days from the date of receipt.

Mr. SMITH of New Jersey. Are you hearing that veterans are losing their loan commitments because of this slow processing time, especially in those 10 offices you have referred to?

Mr. VOGEL. I have heard of instances of that happening. I believe with interest rates being where they are, most of the lenders would extend their commitments if they knew the problem was a turnaround on appraisals and other factors.

Mr. SMITH of New Jersey. Are you at liberty to comment as to whether or not the VA home loan interest rate will be dropping soon again?

Mr. VOGEL. No, I am not, Mr. Smith.

Mr. SMITH of New Jersey. Mr. Vogel, the Los Angeles Regional Office projects a reduction in employees of 102 employees out of 206, or a 17 percent reduction. Isn't that a high percentage compared to other stations, and how are those computed?

Mr. VOGEL. The Los Angeles Regional Office, as I mentioned a few moments ago, has a historically high rate of attrition. The employment figure does not equal the total number of employees. There are part-time employees included in that number. Los Angeles will receive funding for approximately 554 positions. We are in the process now of giving all the regional offices a new operating budget based on a reallocation of resources. We think that we will be able to fund Los Angeles at about 554. That is a high rate, but it is a head count number in a station with high attrition.

Mr. SMITH of New Jersey. As you well know, one of the issues we spend a good deal of time on on this committee is the issue of foreclosure. I wonder if you can tell us what are the rates of foreclosures in the VA inventory of loans, and are they going up, are they going down, or are they staying the same?

Mr. VOGEL. They are about the same, Mr. Smith, today, as they were about a year ago, the rate of foreclosure.

Mr. SMITH of New Jersey. What about the inventory, are we moving that out by selling the homes that have been repossessed?

Mr. VOGEL. Inventory is up a little bit, less than 1,000, in the last 6 months.

Mr. SMITH of New Jersey. Has the realtors' idea worked? You know, they came up with an aggressive plan to move the homes out of the inventory in a quicker time period, quicker than, I believe, the 12 to 14 months that was average. They felt they could do it in 6 to 8 months. Has that worked?

Mr. O'TOOLE. We are still working with the realtors. We have implemented that plan, in six regional offices, and they want to introduce it in a number of others. We haven't seen the results of that just yet, but we certainly are optimistic about it.

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Mr. SMITH of New Jersey. A couple of final questions, Mr. Chairman.

There have been indications some regional offices will delay the obtaining of credit reports on debtors. What are the long-range consequences of such delays?

Mr. VOGEL. That has been pointed out by a few of our Directors in thei. impact statements. We will fund those stations so they do not have to delay their credit reports.

Mr. SMITH of New Jersey. Mr. Chairman, that is all for now.

Mr. SHELBY. The Chair recognizes the gentleman from Tennessee.

Mr. SUNDQUIST. Thank you, Mr. Chairman, and I appreciate your yielding to me a little while ago so I could get into that issue.

I appreciate Chairman Montgomery's comments, I think he bottom lined everything very quickly, and I will identify myself with his comments.

Mr. Chairman, I wonder if it is possible for us to send a letter to Ginnie Mae as a committee outlining the inconsistencies of their policy, and then perhaps—

Mr. SHELBY. If the gentleman would yield, I think that is an excellent suggestion. It would be working from a legislative standpoint like they would be doing administratively. I think it would be strong. We will do this.

Mr. SUNDQUIST. Mr. O'Toole, I commend the progress you are making with them. The only point I am making is the frustration we have, and possibly you have with their illogical approach to it. Hopefully maybe together we can make some changes in that.

Incidentally, Mr. Vogel, did you all not miss the refinancing aspect of this in your predictions? Apart from everything else, everybody missed where the interest rates are going, but when the interest rates went down, did you expect, and did you estimate the refinancing was going to be as heavy as it is?

Mr. VOGEL. We had built into that an estimate of refinancing activity; however, we didn't expect to see this high a volume of refinancing. In a very short timeframe, the VA home loan interest rate dropped from 12 percent 5 down to the present 9.5 percent providing a window of opportunity to a lot more veteran home buyers. If the interest rate had been down a mere point or point and a half, it wouldn't have been economically as beneficial for a lot of those individuals to refinance. But it was that sort of a drop which created a very, very high volume, and we are very, very pleased, of course. It reduces the prospect of the government being liable in the event of default and foreclosure because the mortgage is more affordable.

Mr. SMITH of New Jersey. The earlier estimate, I believe, was based on 270,000 loans. What is the new number?

Mr. VOGEL. About 400,000 commitments, Mr. Smith.

Mr. SMITH of New Jersey. I thank the gentleman for yielding.

Mr. SUNDQUIST. Are you prepared if the interest rate drops further for more concentration in the refinancing area?

Mr. VOGEL. To say prepared, what I would have to do is sort of beg the question. I think given the resources we have, we will turn those around and handle them as we have been. Any drop in interest rate, of course, will provide some additional veterans the oppor-

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tunity to purchase homes. We will definitely see more work, there is no question about that.

Mr. SUNDQUIST. When the interest rates reach some point, the foreclosure rate ought to be drastically reduced. Can't some of those people working on foreclosures be shifted into new loan processing, and are you doing that?

Mr. VOGEL. We are doing that. We see that especially in the upper Midwest where defaults and foreclosures were high. Now we are selling more properties than we are acquiring, and those individuals dedicated to that activity are going over into the origination end of the business.

Mr. SHELBY. Mr. Vogel, or Mr. O'Toole, is there any substance to the story the interest rates on GI loans would be reduced by another one-half percent, except for the fact that there is a desire at OMB to restrict the number of such loans by keeping the interest rate at its current level?

Mr. VOGEL. No, sir, there is no substance to that.

Mr. SUNDQUIST. Mr. O'Toole, no substance to it?

Mr. O'TOOLE. Not at all, Mr. Sundquist.

Mr. SUNDQUIST. One question about the auctions on property that you hold. How are they working? Have they been successful?

Mr. VOGEL. We believe they have been successful. They do, in fact, reflect about what the market is, the prices we are getting on these properties. The total number that have been available and sold at auction is under 1,000. Our inventory right now is about 20,000, and that 1,000 or so properties sold at auction extends over a period of about 18 months. We find it helpful. It gets older property out of inventory and we get about what the market price is. We don't like to see the kinds of prices fetched sometimes in Houston, Tulsa and Oklahoma City and places like that, but we think that they are effective marketing devices.

It also heightens the awareness of the general public that the VA has properties, and they are for sale, and we mean to sell them.

Mr. SUNDQUIST. One last question. You keep the records of the homes and the values of those homes by months held?

Mr. VOGEL. Yes.

Mr. SUNDQUIST. Could you give us for the record here, the number of homes by value and categories of months held so that you could, for instance, compare the homes held more than 24 months and more than 36 months both now and a year ago?

Mr. VOGEL. Yes, sir. We will be happy to provide it.

[The information appears on p. 38.]

Mr. SUNDQUIST. Could you give me a copy when you submit it for the record also?

Mr. VOGEL. Yes, sir.

Mr. SUNDQUIST. Thank you, Mr. Chairman.

Mr. SHELBY. I thank the gentleman.

I have another question. Mr. Vogel, if you do get funds for additional employees, will the $30.9 billion ceiling still be high enough?

Mr. VOGEL. Yes, sir.

Mr. SHELBY. You think the $30.9 ceiling will be high enough?

Mr. VOGEL. That is the best estimate we can make, given present knowledge. Changes in interest rate are apt to cause us either to

arrive at that number or exceed it. That is our best estimate at this time.

Mr. SHELBY. The Chair recognizes now the gentleman from Georgia, Mr. Rowland.

Dr. ROWLAND of Georgia. Thank you. I want to associate myself with the remarks of the chairman of the full committee, I think he is right on target, and tell you about a veteran he was talking about, one that has never applied for anything before. He has never asked for anything, and now he is trying to get his home refinanced. He got the paperwork together, thought that would take him about a week to get all that together, what was necessary. Well, that week turned into 4 weeks because of the loan obstacles. This has nothing to do with the VA.

Then he got his termite inspection. As for the appraisal, it was 6 weeks before he was able to get the appraisal. After the appraisal was done, it takes another 3 weeks from the time the appraiser turns in his paper work for it to go through the process. Then he is informed all the work he had done up to that time was obsolete after 60 days. So then he has got to start over and get that all done again.

So it has really become a frustrating experience for what should have taken a couple weeks has turned into something between 2 and 3 months. I just wanted to give that example of what is happening, Mr. Chairman. In the meantime, he is concerned about interest rates going back up, and he is going to lose the advantage that he had.

So certainly it is a frustrating experience for those veterans who in that particular group that have never asked for anything before, and now they are being frustrated.

Thank you, Mr. Chairman.

Mr. SHELBY. Thank you, Mr. Vogel. The gentleman from New Jersey, Mr. Smith.

Mr. SMITH of New Jersey. Thank you, Mr. Chairman.

I just have one final question. Mr. Vogel, you have projected activity of some 400,000 loans for fiscal year 1986 into 1987. What is the prognosis for 1987? Obviously, it should begin to decline. Forty-five percent of the loans, as you have indicated, are refinanced loans. The interest rates may begin to edge up a bit. Have you looked into the future, into 1987?

Mr. VOGEL. Yes, Mr. Smith. We are right now developing a projection for fiscal year 1987 on where we believe the program will be. We believe fiscal year 1986 will be 400,000 commitments. We wonder where all those veterans are. Clearly there is a pent up demand, a vigorous economy, a low interest rate, lots of activity. We are pleased more and more veteran home buyers are getting into houses that are affordable.

Mr. SMITH of New Jersey. Is it part of your assumption, an interest rate of 9.5 percent with the 400,000 loan volume?

Mr. VOGEL. Yes, sir.

Mr. SHELBY. The Chair recognizes the chairman of the full committee, the gentleman from Mississippi.

Mr. MONTGOMERY. Thank you, Mr. Chairman.

For my own information and for the record, Mr. Vogel, when you make application—incidentally, I have refinanced my quarters, my

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condominium up here, and I got pretty good service, but I got in on it early on—when is the loan locked in on the interest rate? When is it locked in for the veteran?

Mr. O'TOOLE. Mr. Chairman, if the mortgage holder issues a commitment, then that becomes the determining factor as to what the interest rate will be. If the lender does not issue a commitment and just approves the loan and if there is an interest rate change between that time and the time the loan is closed, that the interest rate becomes an item to be negotiated between the lender and the veteran.

Mr. MONTGOMERY. In other words, there are two ways then. You can get a commitment; if the mortgagor doesn't give you the commitment, then the time of closing the loan determines what the interest rate is.

Mr. O'TOOLE. That is right.

Mr. MONTGOMERY. I thank the gentleman from Georgia. I think one reason we are not getting more complaints at this time is the veteran is not really sure whether if he takes it a little slower on closing out that his interest rate might come down a little more, but it is just human nature. If it starts going up, we are going to really hear about it here in Congress, and you are going to hear some more from us.

John, I don't want to reflect on your organization, I know some of you are working night and day on this situation, and we appreciate it, but I think you are going to really have to go another step further. You are going to have to shift people or take this hiring freeze off. It doesn't make a lot of sense, we have a crisis here, and you have to get in and handle it.

Mr. VOGEL. Thank you, Mr. Chairman. I appreciate your recognition of the hard work that is being done. I am very proud of the work done in the regional offices. Our Directors are shifting personnel from other divisions into loan guaranty to the extent that they can, such as from our Veterans' Services Divisions and from our Adjudication Divisions, we are bringing all the resources we can to bear, including the use of contractors. There is a lot of midnight oil being burned out there.

Mr. MONTGOMERY. On this appraisal, it looks to me like something can be done out here to speed up this appraisal. Are those outsiders that you go to?

Mr. VOGEL. Yes, sir, they are. They are appraisers on what we call fee panels. We have expanded the number of appraisers on those panels if they are available, but what we are seeing is really being seen industry-wide. What you and Mr. Rowland described is not a VA phenomenon, that is a phenomenon happening in conventional housing, in FHA and other programs. The backlog is getting appraisals, just getting to see a lender involves a great deal of time and usually an up-front fee paid, which is forfeited if you don't go through with the loan.

Mr. MONTGOMERY. I have had some people in my State come to me who would like to be VA appraisers, and they were willing to get out there and work back in those days. I will remind them of that.

Dr. ROWLAND of Georgia. Are there funds available to pay these appraisers, to pay additional appraisers?

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Mr. VOGEL. We have a general funding problem, but we will have funds to pay for appraisers.

Mr. O'TOOLE. The fee is paid to the appraiser at the time the loan is made, it is not paid by the VA. It is paid by the mortgage lender who collects it from the buyer.

Dr. ROWLAND of Georgia. That is not a problem.

Mr. O'TOOLE. The payment of the fee is not a problem. The problem is the volume of work that the fee appraisers, a limited number of fee appraisers, have from all sources of lending.

Dr. ROWLAND of Georgia. I thank the gentleman for yielding.

Mr. MONTGOMERY. On this 1 percent user fee, isn't that bringing in a great deal of money to the VA that could pay for these items and help that fund on user fees?

Mr. VOGEL. Yes, Mr. Chairman. There isn't any question. We believe that at the present volume the user fee will amount to about $300 million. That money will come into the revolving fund.

Mr. MONTGOMERY. But the Government is not doing too bad on its refinancing and financing is my point. It is not losing anything.

Mr. VOGEL. That is right, sir.

Mr. MONTGOMERY. Thank you.

Mr. SHELBY. The Chair recognizes the gentleman from Tennessee.

Mr. SUNDQUIST. Thank you, Mr. Chairman.

One question, Mr. Vogel, and that is apparently some regional offices are curtailing their toll free telephone lines. Number one, is that true; and, number two, what are the consequences of these actions?

Mr. VOGEL. Directors have identified, based upon the funding given to them to operate their stations, that a possible way to get funds is to reduce or eliminate toll-free lines. None will do so. It is a VA policy we provide that service. We will fund for it. Stations, if they do reduce them, will only do so on the basis that what they have is in excess of their needs. We do not intend to restrict the availability to our veterans.

Mr. SUNDQUIST. Can you submit for the record where you don't need those phones, including what cities and what regions?

Mr. VOGEL. We have a few stations that have identified preliminarily they may have more toll-free lines than they need, based on volume.

Mr. SUNDQUIST. What I want to know is where are you going to cut back and also what the backlog is in those offices and what their workload is? What is the justification? It is not a major thing, but I just want to make sure that we are not building some additional frustration in some veterans who can't get in. I understand the need for not answering the phone in the mornings, but not answering the phone until after 2:00 o'clock in the afternoon might be a little excessive if one is trying to get through. If we are going to cut the toll-free lines in addition to that, I would just like to make sure where those areas are to make sure there is not a backlog.

Thank you.

[Subsequently, the Veterans' Administration submitted the following information for the record.]

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The Department of Veterans' Benefits remains committed to the telephone service program as the avenue of greatest public accessibility for benefits information and assistance. Although telephone traffic studies are conducted annually by each field station to determine the number of lines required to meet the demand for service, exact locations are currently being identified where the number of lines can be reduced or where the type and numbers of lines can be reconfigured. The reconfiguration study now in progress is assessing the effects of recent budget reductions and increasing recurring costs for lines to reach an informed decision regarding the telephone service program needs.

Recent budget reduction effects on the numbers and uses of available staff in answering telephone service program calls is being studied in relationship to the numbers of abandoned calls and other workload at field stations. Nationally, the number of abandoned calls, compared to the abondoned call rate standard as an indicator of timeliness in answering calls, has increased slightly. However, some stations experience a greater effect than others and the additional study is necessary to identify the variables causing the differences in the abandoned call rates.

Mr. SHELBY. Mr. Vogel, would you respond to any written questions that we might come up with regarding this hearing today?

Mr. VOGEL. Yes, Mr. Chairman, we would be pleased to.

Mr. SHELBY. We will keep the record open for that purpose. We appreciate all you appearing before the committee today, and we look forward to continuing to work with you.

Mr. SHELBY. Our next witness will be a fellow Member of Congress, Mr. Ken Kramer.

STATEMENT OF HON. KEN KRAMER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF COLORADO

Mr. KRAMER. Thank you, Mr. Chairman. I will try to be brief and to the point. Thank you for permitting me to appear.

Owning a home is part of the American dream. Thanks to lower interest rates, thousands of Americans who once faced the dim prospect of never being able to achieve that part of the American dream now have that opportunity. Thousands of other Americans are taking advantage of lower rates to refinance their mortgages. All in all, the picture seems positive.

Nonetheless, some people are having very severe problems, particularly with the Veterans' Administration Home Loan Offices. Because of attractive rates, more and more veterans are deciding to refinance existing loans or to buy new houses. With that increase has come backlogs I think you have explored at some depth at many regional offices, including the one in our home State of Colorado. Some veterans who are applying through the Denver office are now waiting up to 4 months for an appraisal, with the total number of cases in that office now surpassing the 4,000 mark and growing daily. It is a situation that concerns me greatly, and that is why I have come in front of the subcommittee today.

Problems in the Denver office are particularly acute since the number of veterans who are seeking to refinance in Colorado is significantly higher, I believe, than the national average. I would like to be as positive as I can about this problem rather than simply lament the difficulties, and to at least throw out a couple of potential solutions I think are worthy of consideration.

If the Veterans' Administration for one were able to delegate to qualified lenders the appraisal process, it is my belief we might be able to significantly reduce the backlog of loan applications that are awaiting an appraisal. That change seems to make a lot of

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sense since it is similar to the way I believe the FHA already handles appraisals.

Secondly, we might explore the possibility of the VA hiring qualified retirees or other workers to help ease the work in this peak period. Although this is but a temporary solution, it certainly could help serve to remove some of the backlog and reduce pressure on the VA staff. I know that some people in the Denver office have said they would welcome any assistance that would augment their staffs and would help them in the processing of the loans.

Lastly, I would like to offer one final suggestion, and that is perhaps of a more permanent nature. We may want to consider a proposal in which Ginnie Mae drops its requirement for an appraisal prior to refinancing. That alone could greatly reduce the time required to process a loan and be beneficial to veterans and realtors alike.

I know one could argue for or against such a policy, but I think it is a change that is worth considering. We have taken one step in that we have already raised the VA loan guarantee limit. I am happy to say I was able to support that increase, but at the same time that probably is not going to be enough. We must ensure that veterans receive the best service that we can provide and that they do have the opportunity to enjoy home ownership.

I really appreciate the opportunity to share these thoughts with you and look forward to working with the subcommittee on a solution to this problem.

Mr. SHELBY. Thank you. We appreciate you appearing here. We know you have a busy schedule, like all of us. We will continue to work on this.

Mr. SMITH of New Jersey. I want to thank the gentleman from Colorado also for his timely statement. He has been a leader in this area for a long time, and it is good to see you again.

STATEMENTS OF A PANEL CONSISTING OF R.E. SMITH, DIRECTOR, ROANOKE REGIONAL OFFICE; TED MYATT, DIRECTOR, HOUSTON REGIONAL OFFICE; DON TWITTY, DIRECTOR, DENVER REGIONAL OFFICE; CARLOS RAINWATER, ST. PETERSBURG REGIONAL OFFICE; AND PHILIP J. ROSS, LOS ANGELES REGIONAL OFFICE

Mr. SHELBY. Our next panel will be comprised of Mr. Ralph Smith, Director of the Roanoke Regional Office; Mr. Ted Myatt, Director of the Houston Regional Office; Mr. Don Twitty, Director of the Denver Regional Office; Mr. Carlos Rainwater, St. Petersburg Regional Office; and Mr. Philip J. Ross, Assistant Director, Los Angeles Regional Office.

If you would briefly sum up your remarks, this will enable some of us on the committee to ask questions.

Mr. Ross, do you want to start out?

Mr. Ross. Mr. Chairman, I have no written presentation today. I am pleased to be here to be given an opportunity to respond to your questions.

Mr. SHELBY. I believe that is true of all of you, is it not?

Mr. Ross. That is correct.

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Mr. SHELBY. The Los Angeles office has apparently lost 16 people in the Loan Guaranty Division since the beginning of this year. How seriously has this impacted upon your operation, and would you please give some examples?

Mr. ROSS. Originally we were quite concerned with some of these losses. Since that time, we have been able to address some of those concerns through relief provided through such measures as the fact that John Doe appraisals are no longer required and, more recently, the Ginnie Mae lifting of the requirement for CRV's to be issued by the Veterans' Administration.

Similarly, we have been given some relief from our original concerns, in that central office has told us we can expect additional staffing in some areas. I think that our concerns have been addressed, and they are reflected to some degree by the fact that the loan guaranty workload on the front end is being processed, although not as quickly as we did last year, it is still being processed in a timely manner.

Mr. SHELBY. In looking through the ways regional offices can reduce administrative expenses, one is considering the canceling of foreclosure appraisals. What do you think would happen if this were done? Would that save a lot of money? Would that be a big risk out there?

Mr. ROSS. I think there would be, obviously, a savings in money. I think there is a certain amount of risk involved there also.

Mr. SHELBY. The combination of increasing workloads and decreasing personnel seem to require a high level of expertise and a high commitment to training. I note that early outs have caused you 65 expert employees, but you also indicate you are curtailing employee training. How do you plan to cope?

Mr. ROSS. That is a two-edged sword. It is an issue we are going to have to face on the short term. Obviously, there is no quick solution or quick fix in the short term. Some of the vacancies we do have, we have gone out nationwide for recruitment as was indicated previously, we hope to draw on some outside talent.

In other instances, the training that we are putting off at the present isn't a long-term prospect. It is something we intend to do and where necessary will do in the immediate future.

Mr. SHELBY. Do you consider the waiting times you are now requiring of claims to be consistent with any reasonable standard of service? Has it really gotten acute?

Mr. ROSS. Our concern is always to provide quality and timely service to our veteran clients, and anything above the norm obviously causes some degree of concern. In some instances, where the average issuance of a CRV would run 15 days, we have doubled that. In some instances, where the average loan application would take 8 days, we have exceeded that by 3 or 4 days. I think your conventional market far exceeds their norms from, say, a year ago. In our particular situation, although we are concerned, I don't think you could by any means say it was an acute situation.

Mr. SHELBY. Mr. Myatt, I have several questions for you, sir. It is my understanding that station personnel were reduced by 28 positions, funds from central office were made available only to support an FTEE ceiling of 382 rather than 392, as required by

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Gramm-Rudman. Have you discussed this inconsistency with the central office, and, if so, what has been their response?

Mr. MYATT. Yes, sir. Of course, we have indeed discussed it many times with our operations personnel and our leadership there in DVB, and I think, as I understand the situation from my perspective in the field, the problems about securing additional FTEE or even being able to fund the full ceiling that we were given early in the year, which in our case is 392, have yet to be resolved.

They have a big problem in the Department on this, and they are in the midst of working it out. I find they resolve to do something when they need to do something. We need additional FTE, I think they agree, and I think we will get our share when it is possible to do so.

Mr. SHELBY. According to your response to Chairman Montgomery's survey, loan guaranty early outs constitute a loss of 50 percent of the division's senior leadership. In view of the hiring freeze, how do you expect to deal with the record breaking foreclosure situation in Houston?

Mr. MYATT. It has been quite difficult. We have been in this situation. I might say I feel perhaps a bit isolated here because the problem in a great part of the country we have been hearing about is a problem at the front end of the loan guaranty, the problem in Houston, I suppose, would be representative of the oil patch states, where our problem is in the back end of the loan guarantee operation, if you will excuse our vernacular. The foreclosure end. The foreclosure situation in Houston is very great. We do not have, with the personnel losses we have incurred, adequate personnel to deal with the great administrative burden placed by this kind of foreclosure rate. We will encounter many problems.

To us, my own perception is that we are probably at the very height of bad economic times unfortunately in Houston, and this, of course, is going to translate itself into this foreclosure situation. It has accelerated a great deal in the last 6 months. And I don't see good times directly ahead. I know the chairman has been to Houston a few months ago and personally observed this situation and are aware of the economic conditions there.

About the only thing that has changed, Mr. Chairman, is it has gotten worse since you were there in the last 5 or 6 months.

Mr. SHELBY. It will probably get worse after this, won't it?

Mr. MYATT. Yes, sir, I don't want to belabor this—

Mr. SHELBY. You go right ahead.

Mr. MYATT Knowing I was coming, to show you that we are in bad times and perhaps at the worse of bad times, I clipped from the Houston newspapers last week the job layoffs that were announced during that 7-day period. I just focused on one week. It looks like I picked a pretty good week, or I suppose that is the wrong terminology, a pretty bad week. I will submit this to the Chair and let you keep it if you would like.

Mr. SHELBY. Share it with us.

Mr. MYATT. "Pennzoil cuts 600", "Amoco cut 15 percent of workers", "Phillips expected to reduce local work force by 250", "Texaco ponders cutbacks", "Exxon plans to cut 15 percent of staff nationally", "City would lose approximately 2,250 jobs". Details, of course, are contained in here. This simply is representative of what our

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economy is incurring. That, of course, translates itself very directly into our situation in trying to deal with the loan guaranty program. We see bad times ahead.

In answer to your question, I have been rather verbose, to answer it, with the present resources we cannot adequately handle the load in the way that it had been handled. I think that is clear to our department, and it is clear to us.

Mr. SHELBY. Mr. Myatt, what is the status of your loan originations today versus a year ago? We know basically what your foreclosure problem is.

Mr. MYATT. For a couple years, our program was at the back end of our operation with foreclosures. However, with the refinancing, just and since the last percent, we now see work at the front end. Of course, some of those people we are able to shift to the foreclosure problem, have to come back up, and we are, in just recent weeks, showing a buildup in the refinancing phase at the front end of our program. There is not great activity among the home builders in the Houston area. That is just not happening. There is, of course, in the San Antonio areas serviced by other parts. Most of our activity is refinancing activity.

Mr. SHELBY. Would you explain how you get more mileage from contract money than monies spent on overtime or from detailing of people from other stations?

Mr. MYATT. Well, in the first place, we have developed the availability of contract sources. In order to be able to get things done on contract, you have to have folks willing to do the work and who can do you a good job. We have managed to identify people that we can contract with if we have money in certain areas where it is permitted by law, and get a good deal of mileage out of them.

On the foreclosure problem, they do such work—I must take it by sections—in loan service claims, they do claims analysis, they do foreclosure typing, field servicing of portfolio loans.

In the property management section, they deal with property analysis, review of settlements, review of offers, and even at C&V they deal with appraisal reviews. We get a lot of mileage out of those, and it is effective work. We got people who want to work, so that is the basis for my statement in the letter.

Mr. SHELBY. You stated in your letter to the committee you need approximately 25 FTE for the Loan Guaranty and Finance Divisions. What will happen if you don't get them?

Mr. MYATT. I would hate to be a prophet of doom or a hand wringer.

Mr. SHELBY. You are in the field, you are dealing with it every day.

Mr. MYATT. If the foreclosure rate continues or accelerates, as we see it doing, we took in over 500 properties this last month for the first time, so it is accelerating without a doubt, I am speaking of the month of April, there will be unfortunate things happening administratively that we would like to prevent. We will have a completely out-of-line situation, and timely payment of taxes and insurance, for example, will be a real problem. We will be incurring penalties because we are not paying our taxes to many local subdivisions on the property.

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Other situations, there will be decreased servicing of delinquent loans, trying to help a veteran save a loan. If we can't adequately service, that could be a result. Inability to timely process the sales is a great problem because you miss sales. We have, as you know, Mr. Chairman, a great number of properties in our inventory. Unfortunately, we are number one in the system—a distinction we are not proud of, and we try desperately to sell those properties through auctions and every other way.

Mr. SHELBY. There is just no market there?

Mr. MYATT. There is no market, and without people to do the marketing that is available, we can't sell.

Mr. SHELBY. I have some questions for Mr. Smith. Mr. Smith, how fast are you refinancing your new loans and refinancing applications? How long did it take a few months ago, and how many people would you need to handle increased activity?

Mr. R.E. SMITH. We are probably out of line by about 2 weeks, I would say, just offhand. We would normally turn that around in just a few days. Now it is two and three times what it was.

Mr. SHELBY. Have you moved any people from other areas, such as loan servicing, into loan processing?

Mr. R.E. SMITH. Yes, sir, we have done that. That was the first move we made administratively to try to handle the workloads. Historically our part of Virginia has had one of the lowest property management inventories in the whole system. We only have about 240 or 250 even today. So it was quite easy to say to ourselves that we could ameliorate the problem in loan processing by taking some of the people out of loan servicing and PM.

However, that is a quick fix, and you pay tomorrow for what you may do today, and we will suffer probably a few more foreclosures, and perhaps we won't make sales quite as quickly in Virginia as we did in the past That was the first thing we did.

Secondly, we moved other people on details into loan guaranty and have moved a lot of work into other divisions from loan guaranty.

Mr. SHELBY. It sounds like you are doing a good job under difficult conditions.

Mr. R.E. SMITH. Yes. Our complaint rate, we watch our Congressional complaints and things like that very closely, and I am reporting to you that we have very few complaints of any kind in the loan guaranty program.

Mr. SHELBY. One regional office stated as a result of the cuts they would have to discontinue using credit reports to locate debtors and use them only if a debt is to be referred to the U.S. Attorney. Obviously this action will severely hamper debt collection efforts. Don't you think the VA becomes faced with an inconsistent position in its efforts to reduce spending?

In other words, if you cut personnel to save money and then because you don't service something, you lose money.

Mr. R.E. SMITH. Absolutely. You are between the rock and the hard place. As far as curtailing use of credit terminals, I can't foresee doing that in our operation.

Mr. SHELBY. You stated without additional funding, it would be extremely difficult to conceive how your station could perform as expected beyond April 30, 1986, without any of the discretionary

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budget items such as toll-free telephones, loan guaranty, fee appraisals and credit reports. It is now May 7. What is your prognosis?

Mr. R.E. SMITH. We are not in good shape. The prognosis is unless we get help, we will get in worse shape.

Mr. SHELBY. Do you think a reduction in loan guarantee fee appraisals could eventually cost the Government additional monies and interest costs due to the agency's inability to timely liquidate defaulted loans?

Mr. R.E. SMITH. I don't really see too much to that.

Mr. SHELBY. Mr. Rainwater, report after report seems to indicate that the VA Home Loan Guaranty Program is the program most seriously affected by Gramm-Rudman cuts. Without remedial action or additional employees, what do you believe the current policy will do to a VA home loan guarantee program?

Mr. RAINWATER. As regards current policy, the only policies I am aware of are the initiatives being taken by our Chief Benefits Director and his staff to plan and program some rather creative techniques as regards the budget and some lessening of some of dotting the "i's" and crossing the "t's" programs that we have had, and some creative things are being done at the central office level to alleviate it.

I don't really see that we will degrade that much more if we are allowed to keep the staffing that we have. We are backlogged, and you have heard all the figures here, and we are in a similar position, perhaps a little more in Florida due to the influx of the veterans population.

Mr. SHELBY. Some of the regional offices state that they would be forced to cease loan guaranty operations the first week in September. Do you foresee the possibility of having to close down your operation?

Mr. RAINWATER. No, sir.

Mr. SHELBY. Do you think if there is no change in personnel we can expect further rapid buildup of workloads in loan guaranty resulting in such conditions as decreased servicing of delinquent loans, inability to timely process notices of default and foreclosure, thereby increasing losses to the government and inability to timely process sales offers resulting in lost sales?

Mr. RAINWATER. Sir, the back end of the program, which you have just described, loan servicing and property management, are not our problem in Florida. We are one of the larger regional offices, but our inventory fluctuates between 700 and 800 properties on hand. We don't really have that kind of a problem in Florida.

Mr. SHELBY. Mr. Twitty, recognizing the employment ceiling imposed on DVB, would funds for contractual workers help with your current temporary peak workload?

Mr. TWITTY. Yes, sir. This would permit us to hire some of the recently retired expertise that we lost and be able to bring them back to do some of their construction and evaluation work which is part of our big backlog.

Mr. SHELBY. What kind of services would these temporary workers perform?

Mr. TWITTY. They would review the master certificates and do that type of work. As I say, reduce the backlog.

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Mr. SHELBY. The Chair recognizes the gentleman from New Jersey, Mr. Smith.

Mr. SMITH of New Jersey. Thank you, Mr. Chairman.

Let me say I think it would be unfortunate if we all walked away from here with a sense that what is occurring in terms of loan volume is not a good thing. We held a hearing last October in my State, in the city of Trenton and VA personnel testified, as did veterans groups and others, that the VA Home Loan Program was largely underutilized, and that the key features, the outstanding features of the program, such as no downpayment, were not known to large numbers of veterans.

That lack of information seems to be changing, and I think it is one positive thing that we need to highlight. Of 400,000-odd loans, of course, approximately half are refinancing, but I think the increased loan volume should be seen as a good thing provided we do our bit to insure that sufficient personnel are in place and a sufficient ceiling is available for the guaranteeing of loans.

I do have a couple of questions of the witnesses. Do you feel, gentlemen, and any of you who would like to answer, please answer, that the VA program in your area has been rediscovered, that the amount of newspaper articles and other means of communicating with people has finally gotten through and that now they are coming into VA offices in greater numbers because of these factors, or is it just a general increase of loans in all areas?

Mr. ROSS. In our particular area I don't think the program has been forgotten; I think it has just been sort of set aside due to the high interest rates. There has been quite a bit of publicity in our area concerning current VA rates, as we are usually a leader as far as getting our rates down as low as possible. These low rates have caused a renewed interest in the VA Home Loan Programs.

Again, I don't think the program has at any point been forgotten.

Mr. SMITH of New Jersey. I have had realtors tell me that they have clients, hundreds of them, who have never mentioned the VA Home Loan Program, that very seldom is it initiated from the potential home buyer, that it usually comes from the realtors or someone else, but that it is changing, and now people are saying "Is the VA Home Loan Program at 9.5 percent, how do I get that loan?" There seems to be a rediscovery, at least in my view.

Mr. R.E. SMITH. I would like to mention in our part of Virginia, we have a high concentration of military active duty, and they avail themselves of our program in great numbers. Typically they have a tour lasting perhaps 3 years in a military post, and they may be some of the most fidgety customers we have. If our loan processing extends over time, it may cause them to have problems in finding housing in their military assignment area.

Mr. SMITH of New Jersey. Mr. Myatt, earlier you spent some time talking on the foreclosure issue in Houston and the economic problems you are facing. Several months ago I introduced legislation that would permit veterans facing foreclosure through no fault of their own, unemployed or 6 months delinquent in their payments, to obtain a loan through the VA that would help tide them over and get them through their personal crisis. We passed similar legislation last year.

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Mr. Vogel just earlier today said the foreclosure rate is just as high today as it was a year ago. I was wondering if you gentlemen could comment on the advisability, providing we get past this crisis we are facing now, of providing those new loans to help those facing foreclosure. Would any of you like to take a stab at it?

Mr. MYATT. It is certainly an interesting possibility. However, that is not my determination to make, that is in the area of policy, and I would not want to presume to speak for the VA on policy. But, you know, a private opinion from a field perspective is it would be an interesting thing to explore. Beyond that, I wouldn't know enough about it to comment about the specific details of the legislation.

Mr. SMITH of New Jersey. I yield back the balance of my time.

Mr. SHELBY. The Chair recognizes the gentleman from Tennessee.

Mr. SUNDQUIST. Thank you, Mr. Chairman.

Let me ask anybody who would care to comment on this, if you have a problem in your region; but, first of all, I want to thank you for the job you do, because we know you are on the firing line and you are facing the worst of all worlds, you are facing increased activity and less money, and we know that your management abilities have to be stretched and those of your employees have to be stretched during this period of time.

What suggestions do you have that perhaps legislatively we might act on or what might we change policywise that would deliver the product quicker? We talked about one earlier, the appraisal question, and we are going to work on that. Are there any other things that perhaps we could do or the Administration could do that would make it possible to deliver the loans quicker? Would anybody care to comment on that?

Mr. SHELBY. I appreciate the gentleman being here today, and I think it has helped us a lot.

Mr. SUNDQUIST. It has. Mr. Myatt, you are in Houston, right?

Mr. MYATT. Yes.

Mr. SUNDQUIST. Is it true that the Texas Regional Office has recommended it take in no more foreclosed houses, and just pay off the guarantee?

Mr. MYATT. Yes, sir, we did make that recommendation to our department. I must confess that that was made in an effort to put the matter on the table, hoping that something might be done to turn the faucet a little bit towards the "off" position. It is going full speed. I recognize that is a far reaching solution, perhaps not even legally permissible. More or less made for the purpose of introducing the subject and seeing if maybe in an effort of compromise something could be done to slow down the flow of foreclosures.

Mr. SUNDQUIST. The drowning man going down for the second time.

Mr. MYATT. Yes, sir, when you are desperate, you sometimes resort to that. We are going to make—I don't want to leave the wrong impression, we are not desperate, but it is a serious situation.

Mr. SUNDQUIST. What happens if that is approved, what would be the consequences?

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Mr. MYATT. If it is approved? We will average taking into our inventory over 400 houses a month, it looks like now. We had over 500 coming in in April, and we have an inventory of some 5300 at this time. If we more or less put a moratorium on taking those properties back in and rather just pay off the guarantee, it would have the effect of reducing all incoming property under the inventory and ridding—lowering the inventory by sales methods.

Mr. SUNDQUIST. It would put a heavy load on financial institutions, though, wouldn't it?

Mr. MYATT. I really haven't considered that aspect of it fully, and I don't know that I am qualified to do so, but perhaps it would be some burden on financial institutions.

Mr. SUNDQUIST. Somebody is going to end up with them, aren't they?

Mr. MYATT. Yes, sir. Of course, they would be doing what the Veterans' Administration is doing now, they would be trying to market those properties in a very, very down market.

Mr. SUNDQUIST. I know the answer to this question from you, Mr. Myatt. But let me ask Mr. Twitty, Mr. Ross, Mr. Rainwater and Mr. Smith at a time. Is the situation, in terms of the backlog in refinancing and new loans, getting better or worse, Mr. Twitty, in your region?

Mr. TWITTY. It is picking up, getting a little worse in my region.

Mr. ROSS. It is a transient situation right now. We have reached the peak, I would say, but that could change overnight, depending on what the market does. Either way a market change is going to cause a temporary increase in our workload. If it stays the same, right where it is right now, we believe we have peaked out. If the interest rate drops, we are going to get more requests, if it raises, all of the fence sitters are going to come back into the market.

Mr. SUNDQUIST. Let me see if I understand, if it drops, you are going to have more people applying; if it starts going up, the people waiting for it to bottom out are going to apply, so either way you are going to have more business, right?

Mr. ROSS. For a short term, that is correct.

Mr. SUNDQUIST. Mr. Rainwater.

Mr. RAINWATER. We know how many appraisals we have already ordered, and there is already that backlog sitting out there waiting for the appraisals to come back. For the rest of this fiscal year, we see an upward trend in all aspects of the front end of the program.

Mr. SUNDQUIST. Mr. Smith.

Mr. R.E. SMITH. I would echo Mr. Rainwater's sentiments. We have a lot of work out there still to come in. I can't see it getting any better without some medicine being given to the program. If anything, I think we haven't bottomed out in Roanoke at all.

Mr. SUNDQUIST. Mr. Smith, what is the best way to relieve your staffing pressures? Is it more overtime, or is it part-time people? What would give you, for the monies spent, the most effective help to solve the problem?

Mr. R.E. SMITH. I think the two cases you mentioned are the only short-term solutions to the problem, overtime and temporary personnel.

Mr. SUNDQUIST. What would be the most effective way of doing it?

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Mr. R.E. SMITH. Both. We would have to use them both in concert, one with the other.

Mr. SUNDQUIST. In terms of dollars spent, as a percentage of your budget, how much of an increase in your budget are we really talking about for the rest of this fiscal year to solve the problem?

Mr. R.E. SMITH. In our case, in the southern part of Virginia, where the VARO Roanoke has jurisdiction, it would seem to me that we would need in the range of $125,000, $150,000 in the combined monies that you mentioned in order to be healthy for the balance of this fiscal year. I am not saying we will take the backlog out of play altogether either, I am saying we would turn it around, and it would be going in the right direction. I cannot assure you we wouldn't have a backlog at the end of September.

Mr. SUNDQUIST. The chairman cautioned you earlier that if the interest rates go up fast, and we have some veterans that missed the opportunity to refinance, there is going to be a high price to pay, and justifiably so, if they feel the backlog was excessive.

Mr. R.E. SMITH. That is my main concern, I share it fully with you.

Mr. SUNDQUIST. And I do too. Thank you, Mr. Chairman.

Mr. SHELBY. The Chair recognizes the gentleman from Florida, Mr. Bilirakis.

Mr. BILIRAKIS. Thank you, Mr. Chairman.

I would like first to apologize to my chairman and to the committee for not having been here earlier. Acid rain is also on the agenda this morning.

Mr. SHELBY. If the gentleman will yield, I am involved in that same committee too, and I would like to have been there. I know I was represented well.

Mr. BILIRAKIS. Thank you. We had as well the nuclear power plant disaster in the Soviet Union.

I would like to extend a welcome to Mr. Carlos Rainwater. Among the letters from the VA regional offices detailing the effects of the Gramm-Rudman sequestration is one from the St. Petersburg Regional Office, which I understand is the busiest, Mr. Chairman, in the system. Director Rainwater's letter to the committee points to a drastic reduction in personnel at this facility since the beginning of the fiscal year, from 589 to 529, and explains that the loss of 20 employees through early retirement was necessary to stay within the new employment ceiling.

He states that these reductions will further erode the timely processing of claims, and I want to emphasize his use of the words "further erode" because the fact is the situation at St. Petersburg was stressful before these reductions.

We received a telephone call yesterday from a lady in Lutz, FL, telling us they have been waiting since March 19, for an appraisal, and the veteran's wife stood by the telephone for 2 weeks waiting for the call to come in and hasn't been able to get through to get an explanation. Maybe we can share that with you later on, Carlos.

While Mr. Rainwater's letter gives the committee some idea of the impact of the sequestrations on the St. Petersburg office, I would like to share with the committee a much more detailed impact statement which Mr. Rainwater provided to us last month in response to my own inquiry, and I ask unanimous consent, Mr.

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Chairman, that this 2-page document be made part of the official hearing record.

Mr. SHELBY. Without objection, it will be made part of the record in its entirety.

[The information appears on p. 39.]

Mr. BILIRAKIS. I won't take time to read the entire impact statement, it will go into the record. I do believe it is important in a moment that we ask Mr. Rainwater to summarize quickly how devastating these cuts have been and will continue to be to the operations of St. Petersburg. I know, despite an extremely heavy workload, the home loan processing section has led the nation in productivity. This year their workload has increased dramatically; yet this division has been required to reduce personnel substantially, and I am sure all the other regional directors have similar stories to tell.

Can you give us an idea of how dramatic the workload has been? The number of requests for appraisal has increased 165 percent between the second quarter of 1985 and the second quarter of this year. After I received the impact statement from Mr. Rainwater, I wrote to the new VA Administrator on April 22 to express my deep concern, and although I am sure a response is on the way, I have not yet received one.

My concern is not only over the fact cuts had to be made, but over the actual cuts implemented by the VA. If this has already been covered, I apoiogize for reiterating it. But it is my understanding that the regional offices all experienced the same percentage cut.

Mr. SHELBY. If the gentleman will yield, we touched on some of it earlier, but you can go ahead.

Mr. BILIRAKIS. Well, it doesn't make any sense on God's earth to me. That is one of the reasons I voted against Gramm-Rudman, because of the unfairness and injustice of the procedure. I would like to at this time ask Mr. Rainwater very briefly, within the remaining time, to summarize for us the devastation that is taking place as a result of all this and, if we have enough time, ask the other Directors for their comments on why the distribution of the cuts was made in the way it was and whether it was fairly and efficiently done.

Mr. Rainwater, you are on first.

Mr. RAINWATER. Thank you.

To begin with, some of the factors pointed out in my impact statement to you, that statement was written some weeks ago, and some of those things have, in all fairness, changed for the better, I am happy to report. Due to some creative financial maneuvering in the central office by the budget staff, we are not having to terminate our building security, we are not pulling out 50 percent of our local telephone service. We are not turning back our maintenance contracts on machines, so to that extent things are better.

Mr. BILIRAKIS. Is your impact statement valid enough to submit for the record, sir?

Mr. RAINWATER. Yes, sir, other than those things, it is pretty much still the case. We have gone over all the numbers here. I haven't quoted my numbers specifically, but we still have 6,300 appraisals waiting for certificates of reasonable value to be issued.

We have about 6,000 certificates of eligibility, way up on the front end of the program, backlogged right now. There are only 1,000 loan applications in the division actually waiting to be processed but, however, our timeliness is pretty much in line, maybe a little worse due to our rapid influx of veterans population than my colleagues here. We are 60 days behind in issuing these certificates of reasonable value. That is not acceptable to us. We are 3 to 4 weeks behind in issuing the loan commitments. That also is an 8-day standard, it is not acceptable.

As I have already stated, and as my impact statement and my letter to the chairman states, I do see some further degrading of our timeliness of service. We are going to deliver a quality product, the timeliness is going to be delayed somewhat. Despite all the management initiatives we are taking, we have cut out doing the niceties, we have cut out a lot of marginal kinds of travel, we have done massive detailing within the Loan Guaranty Division and from other divisions into the administrative support for the Guaranty Loan Division. We have done all those things.

We believe at the current interest rate for the rest of the year, things will get somewhat more strung out in St. Petersburg. There will be longer delays, there is no question about that. There are some initiatives being taken to reprogram some resources, and I am hopeful that some things will be coming our way in Florida.

As you pointed out, we have a high veterans population which is rapidly increasing, and I have made our position known to the budget staff, and they are in agreement with us.

Mr. BILIRAKIS. Let's go into the lack of fairness so far as the way these cuts took place, the across-the-board cuts, for example, without apparently taking into consideration the efficiency, workload capacity, and history of the workload in various facilities, yours as well as the others.

Mr. RAINWATER. As to the fairness, I don't know I would use the word "fairness". I do know that we have a great need in St. Petersburg. We have made that known, we do have a rapid increase in veterans population. The reason for our productivity is, of course, the work is there too be done. We have a very effective work force in Florida. Yes, I would like to have received a greater share of the pie. I believe that that is forthcoming.

Mr. BILIRAKIS. Well, you are awfully diplomatic, and I know my time is probably about up, but let me just, very quickly, ask if there are other regions that possibly could absorb the cuts better than a region which shows a history of a very heavy workload and a continualy increasing workload, what would you say, without necessarily picking on a particular region?

Mr. RAINWATER. Yes, sir. I would agree with that.

Mr. BILIRAKIS. Thank you, Mr. Chairman.

Mr. SHELBY. The gentleman from Connecticut.

Dr. ROWLAND of Georgia. I don't have any specific questions. I would like to thank our witnesses for being here, for diplomatically answering the questions the best they could, and for taking the initiative to respond.

Mr. SHELBY. At this time I want to recognize counsel for the full committee for any questions he might have.

Mr. FLEMING. Thank you, Mr. Chairman.

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We are talking about two budget cuts in fiacal year 1986. The current fiscal year (fiscal year 1986) appropriation for GOE was cut about $23 million. As I recall this reduction came about at the insistance of the other body. Because of this action is it not true that you received a substantial reduction along about October of 1985? Then after Gramm-Rudman was enacted, you received an additional reduction in your allocation, is that correct? Mr. Myatt, could you respond to that?

Mr. MYATT. Yes, sir. I believe that is basically correct, Mr. Fleming. For example, in Houston, our initial ceiling at the end of fiscal year—I believe it was 418. We then received a second ceiling a little further on. I suppose, in response to—I am not sure what that was in response to. Along in February, I suppose, we received our 390.2, which is our current figure.

Mr. FLEMING. Let me ask you specifically. As of the date of your letter to the chairman of the commmittee, you had lost 36 people, and according to the analysis we made based on the letters we received from the regional offices, you received a cut of $1,053,000. Now those 36 people, were those personnel cuts related to the Gramm-Rudman reduction, or were those 36 people that you lost from October 1 to this day?

Mr. MYATT. Those were people that we have lost since October 1.

Mr. FLEMING. So the loss represents cuts imposed by the Appropriations action plus the cuts imposed by Gramm-Rudman.

Mr. MYATT. Yes, sir.

Mr. FLEMING. I am trying to establish that all of the reductions we were not necessarily due to the enactment of Gramm-Rudman, because the Appropriations Committee cut GOE substantially. So, even though you had already been hit severely because of the initial reduction made in the annual appropriations bill, you had to take another hit because of Gramm-Rudman.

Now to follow up on what one of the members asked earlier, you say you have 5,400 properties in your inventory and bringing in another 400 to 500 properties a month.

Mr. MYATT. Yes, sir.

Mr. FLEMING. How many people do you have managing that kind of inventory?

Mr. MYATT. Managing that kind of inventory? We lost unfortunately half of the senior leadership in the Loan Guaranty Division in the early out retirement. That included the assistant Loan Guaranty officer, the Section Chief of Property Management, which has direct charge of these properties, and the Section Chief of C&V. If your question is, "what is the leadership situation in Loan Guaranty," we are in bad shape.

Behind the Division Chief, we have little backup or senior leadership, and we are hoping to get early authority to fill those positions, because with the kind of pressure the Loan Guaranty Division is under, you lay on top of that a leadership problem, of course, that exacerbates the situation.

Mr. FLEMING. So you have lost a lot of your senior staff in the Loan Guaranty, and to make matters worse, you are under the hiring freeze, that prohibits you from filling those vacancies.

Mr. MYATT. We have been authorized to advertise, if you will—forgive the language of the trade—across the system to bring

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people in. We haven't yet been actually authorized to select and move those people because that requires what we call translocation dollars, but what I am suggesting is the process, the department has authorized us to begin the process, we have taken the first step in filling those positions, and it is my opinion the department is fully aware we have to fill them.

And if it is possible, considering the situation that they are under, that I am convinced we will be among the first to fill them.

Mr. FLEMING. Mr. Ross, you certainly have one of the largest regional operations in the country. How are you coping with the reduction of 102 people in such a short period of time? With the ever-increasing volume of work that you have, not only in loan guaranty, but other adjudication claims as well how are you going to handle the situation?

Mr. ROSS. Again, we are quite concerned about our high attrition rate. This is an attrition rate not brought about solely because of early out or any other measure. This is a normal attrition that we experience on a year-to-year basis. We do have that high of an attrition ratio.

The only thing that is different is normally we are allowed to fill these vacancies.

Mr. FLEMING. Could I interrupt and ask, are you telling me that under the hiring freeze, you can't fill any positions?

Mr. ROSS. Originally that was the situation. Now we have been advised there may be some relief Central office has been responsive to our concerns and our needs, and there is some relief forthcoming.

Mr. FLEMING. But you lost 102 people.

Mr. ROSS. We project the loss of 102 people with no change or relief coming down.

Mr. FLEMING. Thank you very much.

Mr. SHELBY. Thank you, gentlemen. This will conclude our hearing today, and I appreciate all of you appearing. We might have some questions from members of the committee or staff, and we will keep the record open for that, and if we do, we will contact you.

[The information appears on p. 40.]

Mr. SHELBY. Thank you a lot.

[Whereupon, at 11:20 a.m., the subcommittee was adjourned to proceed to other business.]

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APPENDIX

STATEMENT BY U.S. REPRESENTATIVE DON SUNDQUIST
AT THE COMMITTEE ON VETERANS AFFAIRS SUBCOMMITTEE
ON HOUSING AND MEMORIAL AFFAIRS
MAY 7, 1986

MR. CHAIRMAN, FIRST OF ALL I WANT TO COMMEND YOU FOR THE URGENCY WITH WHICH YOU CALLED THIS HEARING. I APPRECIATE YOUR IMMEDIATE WILLINGNESS AND COMMITMENT TO ADDRESSING THIS PROBLEM.

IT HAS COME TO MY ATTENTION THAT THE REGIONAL OFFICES OF THE VETERANS ADMINISTRATION ARE CURRENTLY EXPERIENCING A TERRIBLE OVERLOAD IN WORK DUE TO THE LARGE NUMBER OF VETERANS WANTING TO REFINANCE THEIR HOMES OR PURCHASE NEW ONES. BECAUSE OF THE FAVORABLE MARKET CONDITIONS BROUGHT ON BY THE LOW INTEREST RATES THE TECHNICIANS AND CLERICAL EMPLOYEES OF THESE OFFICES ARE FINDING THEMSELVES IN A SERIOUS DILEMMA. COMBINE THIS WITH THE HIRING FREEZE IMPLEMENTED AT THE VA AS AN INDIRECT RESULT OF THE GRAMM-RUDMAN-HOLLINGS DEFICIT REDUCTION ACT, AND IT BECOMES IMPERATIVE THAT THE MEMBERS OF THIS COMMITTEE INITIATE CORRECTIVE ACTION.

AN EXAMPLE OF THE EXTREME WORKLOAD IS EVIDENCED BY THE CURRENT SITUATION IN THE TENNESSEE REGIONAL OFFICE. THEIR BACKLOG IS SUCH THAT THEY DO NOT ANSWER THEIR PHONES FROM 8 AM TO 2 PM EVERY WORKDAY IN ORDER THAT THEY MAY ATTEMPT TO REMAIN CLOSE TO CAUGHT-UP ON THEIR PAPERWORK. ONE CAN READILY SEE THEIR PROBLEM WHEN YOU LOOK AT STATISCAL INFORMATION COMPARING THE SECOND QUARTER OF FISCAL YEAR 1985 WITH THAT OF 1986. THERE HAS BEEN AN 89% INCREASE IN APPRAISALS, A 55% INCREASE

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IN INSPECTIONS, A 54% INCREASE IN ELIGIBILITY DETERMINATIONS, A 55% INCREASE IN LOAN COMMITMENTS, A 59% INCREASE IN GUARANTEES ISSUED, AND A 36% INCREASE IN PROPERTY MANAGEMENTS/PURCHASE ORDERS PROCESSED.

TODAY, I AM HOPEFUL WE CAN COME TO SOME AGREEMENT AS TO HOW TO RESOLVE THIS MATTER SOON. IF WE DO NOT, WE RUN THE RISK OF DENYING AN ELIGIBLE VETERAN THE OPPORTUNITY TO PURCHASE OR REFINANCE A HOME.

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LOAN GUARANTY DIVISION/VETERANS ADMINISTRATION

	Fiscal Year, 1985 Second Quarter	Fiscal Year, 1986 Second Quarter	% Change
Appraisals	1,901	3,598	89%
Inspections	2,910	4,507	55%
Eligibility Determinations	1,578	2,424	54%
Loan Commitments	844	1,304	55%
Guarantees Issued	974	1,546	59%
Property Managements/ Purchase Orders Processed	319	434	36%

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REMARKS BY HON. JOHN PAUL HAMMERSCHMIDT
BEFORE THE SUBCOMMITTEE ON HOUSING &
MEMORIAL AFFAIRS, MAY 7, 1986

THANK YOU, MR. CHAIRMAN.

THIS HOUSING AND MEMORIAL AFFAIRS SUBCOMMITTEE HEARING IS ABOUT MATTERS SO IMPORTANT THAT IT HAS ATTRACTED THE INTEREST OF THE COMMITTEE AS A WHOLE. MY GOOD FRIEND, MR. MONTGOMERY, CHAIRMAN OF THE FULL COMMITTEE, WHO IS NEVER FAR FROM ANY MATTER CONCERNING VETERANS, IS HERE ALSO, AND I ASSOCIATE MYSELF WITH HIS FINE REMARKS.

MR. CHAIRMAN, YOU AND MR. SMITH, THE SUBCOMMITTEE'S RANKING MEMBER, BY THIS HEARING DEMONSTRATE ONCE AGAIN YOUR DEDICATION TO OUR NATION'S VETERANS.

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"CONCERN" IS THE RIGHT WORD FOR TODAY'S HEARING ON THE DEPARTMENT OF VETERANS' BENEFITS REGIONAL OFFICES AND THE HOME LOAN GUARANTY PROGRAM. WE ARE VERY CONCERNED ABOUT REPORTS COMING TO US THAT MANY REGIONAL OFFICES DO NOT HAVE ENOUGH RESOURCES TO HANDLE THEIR WORKLOAD, ESPECIALLY IN THE LOAN GUARANTY AREA. AND THE PROBLEM OF THE GRAMM-RUDMAN PROGRAM CEILING SEEMS TO BE WITH US AGAIN.

HOPEFULLY, WHEN THE TESTIMONY BEFORE THIS SUBCOMMITTEE HAS BEEN CONCLUDED, WE WILL HAVE A MUCH BETTER IDEA WHERE THINGS REALLY STAND, AND WE CAN BEGIN DOING WHATEVER NEEDS TO BE DONE IN THIS BODY TO ADDRESS ANY PROBLEMS WHICH MAY BE REVEALED.

THANK YOU MR. CHAIRMAN.

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HONORABLE G. V. (SONNY) MONTGOMERY

HEARING OF

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

MAY 7, 1986

I THANK THE GENTLEMAN FOR YIELDING. I APPRECIATE HIM CALLING THIS HEARING.

AS THE CHAIRMAN OF THE SUBCOMMITTEE KNOWS, I RECENTLY SENT A LETTER TO EVERY REGIONAL OFFICE DIRECTOR ASKING THEM TO ADVISE THE COMMITTEE OF THE FUNDING LEVEL CUTS THAT RESULTED FROM THE GRAMM-RUDMAN-HOLLINGS AMENDMENT, AS WELL AS ANY OTHER REDUCTIONS THAT HAD BEEN IMPOSED ON THEM.

I ASKED THEM TO ADVISE ME OF THE PERSONNEL REDUCTIONS THAT WERE MADE. I ALSO WAS CONCERNED ABOUT THE LOSS OF PERSONNEL DUE TO THE OFFICE OF PERSONNEL MANAGEMENT'S DECISION TO ALLOW CERTAIN SENIOR EMPLOYEES TO RETIRE EARLY. THE RESULTS OF THE SURVEY HAVE BEEN MADE AVAILABLE TO EACH MEMBER OF THE SUBCOMMITTEE.

I'M CONCERNED ABOUT ALL OF THESE REDUCTIONS, BUT ESPECIALLY PERSONNEL REDUCTIONS IN THE HOME LOAN PROGRAM.

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IT SEEMS OBVIOUS FROM THE RESULTS OF THE SURVEY THAT THE AGENCY IS HAVING EXTREME DIFFICULTY IN PROCESSING HOME LOAN APPLICATIONS. I'M ANXIOUS TO HEAR FROM THE VETERANS ADMINISTRATION AS TO WHAT ACTION IS TO BE TAKEN IN ORDER TO MAKE CERTAIN THAT VETERANS WILL BE ABLE TO TAKE ADVANTAGE OF THE LOW INTEREST RATES THAT ARE NOW AVAILABLE TO THEM.

I CONGRATULATE THE DISTINGUISHED CHAIRMAN OF THE SUBCOMMITTEE AND THE DISTINGUISHED RANKING MINORITY MEMBER FROM NEW JERSEY FOR PAYING SUCH CLOSE ATTENTION TO THE RAPID DEVELOPMENTS THAT ARE OCCURRING IN THE HOME LOAN PROGRAM. I APPLAUD YOU FOR HOLDING THIS HEARING AND I'M PLEASED TO PARTICIPATE.

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Number of Homes by Value and Categories of Month Held by VA

Following is information on the number and value of guaranteed loan properties in absolute title as of May 7, 1986 and as of May 7, 1985.

As of May 7, 1986:

Period	Number	Value ($000)	Average
Under 6 Months	9,739	$476,447	$48,922
6 But Less Than 12	5,368	248,143	46,226
12 But Less Than 18	2,093	90,643	43,307
18 But Less Than 24	834	34,456	41,315
24 But Less Than 30	356	13,674	38,411
30 But Less Than 36	187	6,800	36,362
36 But Less Than 42	69	2,169	31,438
42 But Less Than 48	31	1,031	33,253
48 Months and Over	38	1,193	31,396
Total	18,715	$874,556	$46,730

As of May 7, 1985:

Period	Number	Value ($000)	Average
Under 6 Months	9,130	$439,423	$48,130
6 But Less Than 12	4,647	219,245	47,180
12 But Less Than 18	2,127	95,248	44,781
18 But Less Than 24	1,221	49,683	40,691
24 But Less Than 30	526	18,662	35,479
30 But Less Than 36	276	9,095	32,953
36 But Less Than 42	129	3,589	27,823
42 But Less Than 48	51	1,229	24,098
48 Months and Over	49	1,549	31,604
Total	18,156	$837,723	$46,140]

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4/7/86

WHITE PAPER

VA Regional Office St. Petersburg, Florida

IMPACT STATEMENT OF GRAMM-RUDMAN-HOLLINGS LAW ON THE VA REGIONAL OFFICE IN ST. PETERSBURG, FLORIDA

The Veterans Administration Regional Office in St. Petersburg, Florida was given a revised FY 1986 allowance letter stipulating what employment and dollar allowances the station could endure under the effects of the Balanced Budget and Emergency Control Act of 1985.

The Veterans Administration Department of Veterans Benefits was restricted in both full time employment levels and non-payroll limitations. The St. Petersburg Regional Office has been carrying 589 full time employees. The workloads in all areas of operations have increased approximately 10% over last year's figures. This can be attributed to the growth in the State of Florida. The St. Petersburg Regional Office has been instructed to reduce its employment ceilings to 561.4 (cumulative average) by September 30, 1986. However, funding provided did not support this employment ceiling nor necessary level of non-payroll expenditures.

In order to have sufficient monies to cover payroll costs, the Veterans Administration received authority from the Office of Personnel Management to initiate "early out" provisions so that the Veterans Administration could continue operations through the end of this fiscal year. Furloughs and possible reductions-in-force are additional strategies the Veterans Administration may have to resort to in order to meet our allocations.

Because of the early-out provisions, this Regional Office had twenty (20) employees retire on April 3, 1986. This saved the Regional Office approximately $650,000 in annual salaries and fringe benefits. These former employees were dedicated, well trained, and experienced personnel. A loss of this magnitude will result in a degradation of our services. The greatest degradation will be in timeliness of services.

In the area of estimated non-payroll expenditures, the St. Petersburg Regional Office submitted an operation plan requesting $360,000 for the fiscal year. The Regional Office must cut $133,000 from this operating plan. Management shall be forced to take these definitive measures:

(1) Termination of building security services - $10,000

(2) Turning back all GSA automobiles - $26,000

(3) Fifty percent removal of all commercial telephone lines in all divisions - $22,000

(4) Cancellation of pre-sort mail services - $12,400

(5) Cancellation of contracts for photocopying machines - $6000

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(6) Cancellation of equipment repair contracts - $11,500

(7) Cancellation of all training for employees at the station - $5000

(8) A fifty percent reduction in the purchasing of office supplies - $30,000

(9) Reduction in orders for the printing of envelopes - $4000

The St. Petersburg Regional Office is short $25,000 in State Approval contracts.

To illustrate the magnitude of effects of the Gramm-Rudman-Hollings Law, the Loan Guaranty Division has experienced work growth that would have seriously taxed our ability to provide quality, timely service to veterans. Support services have lost the ability, through personnel reduction, to provide needed services such as prompt mail delivery, typing of documents and letters, and financial indebtedness information. Outside influences such as the lowering of the prime interest rate have caused home loan activity to increase dramatically. All four sections of this division have experienced increased activity. The most increases have been experienced by the origination portion of the program. This portion is the most visible. For the second quarter of FY 85, a total of 10,389 requests for appraisals were received, an average of 3,465 per month. During the second quarter of FY 86 27,615 requests were received - an average of 9,205 per month. This is an increase of 165%. During FY 85, the appraisal activity maintained a productivity of 103%. Obviously, the increased workload would seriously have strained the staff discounting any reductions. During the same quarters, the number of loan applications has increased from 3,756, or 1,252 per month, to 5,981, or 1,994 per month. It should be remembered that the high activity in appraisal actions preceeds high resultant activity in loan origination actions from between six to eight weeks. Therefore, it is anticipated that loan applications will increase in dramatic fashion. It is anticipated, based on the ratio of appraisals to applications, that the monthly average will increase to 4,000 or 48%. During FY 85, the loan processing section led the nation in productivity at 113%. With the current economic indications, interest rates should continue at their current low rate, if not lower. Loan Guaranty business should remain high for the rest of FY 86, although it may drop slightly as the rush for refinancing diminishes. Personnel losses in this division have been 15%. Short term intra-divisional details have kept the staffs of the two origination functions at relatively the same level as in 1985. Obviously, since the total number of employees in the division has decreased, both the property management and more acutely, the loan service and claims section, have been depleted. The loan service and claims section has had a mandated loss of six employees even though pending loan defaults have increased up to 7486 as of March 1986. With an increase in defaults and less people to service these cases, foreclosure actions will increase. This will cause the inventory of properties to increase with potential dollar losses.

Other divisions in the Regional Office are experiencing similar situations. Employees are being shuffled from division to division to effectively manage the workload. The Telephone Unit in Veterans Services Division has a 16% loss of calls because of increased workloads and not enough employees to answer telephone inquiries. Incoming mail takes approximately three days before it reaches the designated division. There is about a weeks delay in getting mail out of the mail room..

Carlos L. Rainwater

CARLOS L. RAINWATER
Director

WRITTEN COMMITTEE QUESTIONS AND THEIR RESPONSE

HON. CHRISTOPHER H. SMITH TO VETERANS' ADMINISTRATION

Office of the
Administrator
of Veterans Affairs

Washington DC 20420

Veterans
Administration

In Reply Refer To:

JUN 23 1986

Honorable Richard Shelby
Chairman, Subcommittee on
Housing and Memorial Affairs
Committee on Veterans' Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Enclosed please find the Agency's responses to the questions which you forwarded on behalf of Mr. Smith for the May 7, 1986, hearing by the Subcommittee on Housing and Memorial Affairs on the VA home loan guaranty program. It should be noted that questions three and four as submitted are identical. Consequently, we have renumbered the last three questions as four, five, and six.

Thank you for the opportunity to provide this additional information for the record.

Sincerely,

For James E. Dewire (Chief of Staff)
THOMAS K. TURNAGE
Administrator

Enclosure

"America is #1—Thanks to our Veterans"

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QUESTIONS OF CONGRESSMAN CHRIS SMITH OF NEW JERSEY
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
HEARING OF MAY 7, 1986

Question 1. Central Office apparently gives each regional office a ceiling and money to match the ceiling. However, many regional offices state that the money does not really match and, therefore, they must hire at a level substantially below the ceiling. Please comment.

Response. Normally, stations are given an FTE ceiling and the dollars to support their ceilings. During the implementation of the Balanced Budget and Emergency Deficit Control Act of 1985, which required personnel reductions as well as non-payroll limitations, stations were not given the dollars to support their ceilings. Consequently, stations could not achieve their authorized levels. As a result of the passage of P.L. 99-322 and the early-out program, payroll and non-payroll dollars have been reallocated to each station for the remainder of FY 1986.

Question 2. During his testimony, the Assistant Director of the VA Regional Office in Los Angeles seemed to indicate that that office is coping with its loan guaranty problems. Yet, the Director's letter to the Chairman of the full Committee said that her office had 15,000 appraisals pending as of April 16th with 3,500 more coming in each week. Please comment on the Los Angeles situation.

Response. We have been closely monitoring the Loan Guaranty workload situation at all of our regional offices. Since the Los Angeles office submitted its report to the Veterans Affairs Committee, significant progress has been made toward reducing work backlogs. On Saturdays May 10th and 17th the Loan Guaranty Division worked overtime reducing the number of Certificates of Reasonable Value (CRV's) pending in the office from 2,976 to 662.

A large number of appraisals are pending with the fee appraisers. However, we are beginning to realize the benefits of GNMA's (Government National Mortgage Association) recent decision not to require CRV's on interest rate reduction refinancing loans. Many appraisals currently pending will be sent directly from the appraiser to the lender. The Los Angeles situation is improving and we expect continuation of this progress in the future.

Question 3. Some regional offices only take calls in the Loan Guaranty Division during certain hours. Other regional offices have calls diverted to the Veterans Services Division. Do these procedures present problems or are they working to your satisfaction?

Response. Because of heavy workloads many regional offices have had to limit the hours that telephone calls will be accepted in the Loan Guaranty Divisions. These stations have found that productivity can be maximized by restricting telephone calls to certain time periods allowing employees to concentrate their efforts on processing cases. Ideally we would prefer to have personnel available throughout the day to answer questions and provide other services requested by veterans, lenders, brokers, etc. However, sharply lower interest rates have created a tremendous demand for services from VA which has necessitated that we modify our operating procedures.

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Question 4. Your Detroit Regional Office has indicated that it can delay paying for foreclosure appraisals until a claim is submitted, thus saving $70,500 in this fiscal year. Of course, the claim would be paid later. Please explain this delayed payment program and tell us if it has nationwide implications.

Response. On March 21, 1986, procedures for ordering and paying the cost of liquidation appraisals were changed. The revised procedures are in effect nationwide. Holders of GI loans are now responsible for ordering liquidation appraisals and for paying the appraisers' fees. When foreclosure is completed, and a claim is filed under loan guaranty, VA will reimburse the holder for the cost of the appraisal as part of its claim.

Question 5. Some offices are turning in GSA automobiles. What are the consequences of this on the Loan Guaranty Program?

Response. Loan Guaranty Program utilizes GSA vehicles to field review fee appraisals, assist in construction complaint cases, provide services to disabled veterans in Specially Adapted Housing cases, service defaulted guaranteed loans, and inspect acquired properties. A reduction in the availability of GSA cars and/or travel funds for the use of privately owned vehicles restricts the level of services which normally would be provided. Local regional office directors have established priorities for travel in order to meet the most critical needs, such as assistance to severely disabled veterans.

Question 6. How much money and how many additional employees do you need to realistically cope with your loan guaranty workloads?

Response. On May 12, 1986 additional overtime funds were made available to regional offices specifically for reducing Loan Guaranty work backlogs. A number of regional offices worked overtime on Saturday, May 17th with significant results. The number of Certificates of Reasonable Value (CRV's) pending at all regional offices decreased by approximately 32 percent. Funds for overtime, contracting out and staffing are being made available to reduce pending workloads. We are confident that the application of these resources will substantially improve the Loan Guaranty workload situation and ultimately provide more timely service to veterans.

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